Nadler Testifies on Immediate Need for Banks to Lend

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NEW YORK, NY – Today, at a Troubled Asset Relief Program (TARP) Congressional Oversight Panel field hearing held in his district, Congressman Jerrold Nadler (D-NY) testified on the absolute necessity for TARP-funded banks to start lending money and for more stringent oversight of those banks that have received federal bailout funds. The field hearing, held at the Kimmel Center at New York University in Manhattan, focused on commercial and industrial business lending in New York City and the federal policy which guides it.

“If financial institutions are saved by the federal bailout but families and businesses continue to founder, then the TARP legislation will have been a failure,” said Rep. Nadler. “It is unconscionable that the banking industry should be the recipient of billions in taxpayer assistance without directly providing benefit to consumers. What’s more, we need comprehensive regulatory reform in order to stave off the next financial catastrophe. We need to take away from this experience the lesson I had thought the nation learned in 1929: sound regulation in markets is necessary to maintain stability.”

The following was Rep. Nadler’s opening statement:

“Thank you for holding this important hearing today and for inviting me to testify. And thank you to NYU for hosting this important hearing. I first want to welcome you to the Eighth Congressional District, which includes Wall Street, the physical and symbolic center of the nation’s financial services industry. The district stretches from the Upper West Side of Manhattan, through downtown, and into Coney Island and the neighborhoods of southwest Brooklyn. All of these communities, whether directly involved with Wall Street or not, have felt the current financial crisis acutely.

“Today, we are here to look into the real life impacts of the crisis and how federal legislators can do better to guide the recovery process, make it more efficient and transparent, and maximize its success. Congress created this panel to ensure that there would be an independent watchdog able to account for the $700 billion that Congress made available to stabilize the financial system. It is critical that we understand whether this money is really making it easier for families and businesses to obtain credit on fair terms. If financial institutions are saved but families and businesses continue to founder, then the TARP legislation will have been a failure. The need for this panel and its work are vital.

“I would urge the panel to continue to fulfill its entire mandate as set out in section 124 of the Emergency Economic Stabilization Act, which requires, in addition to monitoring the use of the funds made available by Congress, to analyze ‘the current state of the regulatory system and its effectiveness at overseeing the participants in the financial system and protecting consumers, and provid[e] recommendations for improvement, including recommendations regarding whether any participants in the financial markets that are currently outside the regulatory system should become subject to the regulatory system, the rationale underlying such recommendation, and whether there are any gaps in existing consumer protections.’

“These are important questions, and Congress added them to your legislative mandate for a reason. The fact is that, while the TARP funds may have begun to stabilize the financial system – a vitally important purpose of the law – it is clear that the benefits are not going to all of the players in our credit markets. As your reports have rightly pointed out, consumers and small businesses are not experiencing the kinds of benefits that Congress had intended.

“In some cases, further legislative action has been necessary. For example, the recent enactment of the Credit Card Accountability Responsibility and Disclosure Act of 2009 was a response to the increasing hardships imposed by the credit card industry on borrowers. It is unconscionable that the industry should be the recipient of billions in taxpayer assistance while at the same time making things even harder on consumers. In the future, Congress must continue to act if taxpayers are not realizing substantive benefit from these expenditures.

“I would also urge this panel to continue to look at the ‘effectiveness of foreclosure mitigation efforts, and the effectiveness of the program from the standpoint of minimizing long-term costs to the taxpayers and maximizing the benefits for taxpayers,’ as required under section 125. It is a great disappointment to me that Congress has so far failed to reform the Bankruptcy Code to allow individual debtors to modify mortgages secured by their family homes, just as the owners of vacation homes, investment properties, factories, and family farms now may.

“So far, the voluntary system of mortgage modification has been a stunning failure. Recently, Congress established a number of programs that would use taxpayer funds to help modify mortgages. There is no reason why the costs of a bad loan should not be apportioned among the parties to a transaction gone bad. Nonetheless, since 1978, families have been singled out in bankruptcy as the only debtors for whom modification is categorically unavailable. In view of the aid the banking industry has been receiving – from cash, to increased deposit insurance, to a variety of other goodies – I believe it is unacceptable for us to continue to allow this anomaly to continue.

“Unfortunately, I do not believe that this plan will work to get credit following once again, as many prominent economists – including Paul Krugman, Joseph Stiglitz, Robert Kuttner and James Galbraith – have warned us again and again. If we remain on our current course, the contraction of credit will only continue, defeating the very purpose of the federal bailout.

“As Robert Kuttner wrote this week in The American Prospect: ‘Instead of closing or breaking up failed banks, dividing the losses between taxpayers and bondholders, and getting the successor banks quickly back to health, the Treasury is propping up the incumbent [banks]…This policy is likely to prolong the agony and leave a still-wounded banking system dragging down the real economy.’

“If we are to continue on this path, we must also opt for some bolder and surer measures. For one, the federal government could set up, say, five new banks that it would heavily capitalize and to which it would invite private investment. These banks would not be burdened by the toxic securities now affecting the large banks and restricting their ability to extend credit in the economy, and the new banks would be free to restore the necessary flow of credit.

“Alternately, if this is too radical a proposal, the federal government could instead capitalize a large number of existing local and regional banks which have been lending for many years and didn’t become involved in the orgy of speculative investment, derivates, credit default swap and so forth that have afflicted our major banks. With additional private investment, these banks would also be free to extend credit in the economy. With either alternative, we wouldn’t have to wait to solve the problems of the major banks.

“Moving forward, we need to maintain real oversight as our plan unfolds and the economy recovers. We need comprehensive regulatory reform in order to stave off the next financial catastrophe. We need to take away from this experience the lesson I had thought the nation learned in 1929: sound regulation in markets is necessary to maintain stability.

“The current crisis is real and immediate. Our recovery is directly dependent on the federal government’s expert management and oversight of the TARP, and this can only be achieved with total transparency as we move forward.

“Again, I thank the panel for its crucial work.”